

**INDIANA BASIC PROPERTY INSURANCE
UNDERWRITING ASSOCIATION
Financial Statements
Years Ended September 30, 2004 and 2003**

**INDIANA BASIC PROPERTY INSURANCE
UNDERWRITING ASSOCIATION**

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WHIPPLE & COMPANY_{pc}

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Governing Committee and Members INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

We have audited the accompanying statements of admitted assets, liabilities, and members' equity of INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION as of September 30, 2004 and 2003, and the related statements of income, accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A to the financial statements, the Association's policy is to prepare its financial statements on the basis of accounting practices permitted by the Insurance Department of the State of Indiana, which practices differ from generally accepted accounting principles. The effects on the financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION as of September 30, 2004 and 2003, and the results of income and accumulated deficit, and its cash flows for the year then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and members' equity of INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION as of September 30, 2004 and 2003, and the results of its income and accumulated deficit and its cash flows for the year then ended, on the basis of accounting described in Note A.

Whipple & Company, PC

October 29, 2004

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Statements of Admitted Assets, Liabilities and Members' Equity

September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Admitted Assets		
Current Assets		
Cash and cash equivalents	\$ 2,059,802	\$ 1,853,430
Premiums receivable	45,147	138,464
Other receivables - related party	<u>2,117</u>	<u>23,470</u>
Total Current Assets	<u>\$ 2,107,066</u>	<u>\$ 2,015,364</u>
Liabilities and Members' Equity		
Accounts payable and accrued expenses	\$ 64,872	\$ 128,680
Commissions payable	24,430	30,983
Reserve for unpaid losses	316,973	533,941
Reserve for unpaid loss adjustment expenses	10,600	15,728
Reserve for unearned premiums	1,487,804	1,212,699
Advance premiums	<u>78,455</u>	<u>10,302</u>
Total Liabilities	<u>1,983,134</u>	<u>1,932,333</u>
Members' Equity		
Member contributions on open years	893,000	1,353,972
Reserve for nonadmitted assets	(5,280)	(5,356)
Accumulated deficit	<u>(763,788)</u>	<u>(1,265,585)</u>
Total Members' Equity	<u>123,932</u>	<u>83,031</u>
Total Liabilities & Members' Equity	<u>\$ 2,107,066</u>	<u>\$ 2,015,364</u>

See accompanying notes.

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Statements of Income and Accumulated Deficit For the Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Underwriting Income:		
Premiums earned	\$ 2,806,799	\$ 2,241,296
Underwriting Expenses:		
Losses incurred	1,535,516	1,659,716
Loss adjustment expenses incurred	147,086	87,119
Other underwriting expenses:		
Commissions	310,583	256,132
Inspections and credit expense	115,993	114,861
Servicing fees	112,647	108,592
All other expenses	<u>571,001</u>	<u>465,090</u>
Total Other Underwriting Expenses	<u>1,110,224</u>	<u>944,675</u>
Total Underwriting Expenses	<u>2,792,826</u>	<u>2,691,510</u>
Underwriting Income / (Loss)	13,973	(450,214)
Investment Income	<u>16,815</u>	<u>12,942</u>
Net Income / (Loss)	30,788	(437,272)
Accumulated Deficit, Beginning of Period	(1,265,585)	(1,103,290)
Net Effect for Closing Out Accident Years	<u>471,009</u>	<u>274,977</u>
Accumulated Deficit, End of Period	<u><u>\$ (763,788)</u></u>	<u><u>\$ (1,265,585)</u></u>

See accompanying notes.

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Statements of Cash Flows

For the Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities:		
Premiums received	\$ 3,139,327	\$ 2,478,319
Losses and loss expenses paid	(1,904,698)	(1,568,826)
Cash paid for services and employees	(1,069,583)	(729,351)
Investment income	16,815	12,942
	<u>181,861</u>	<u>193,084</u>
Cash Flows from Investing Activities:		
Purchase of equipment	(2,267)	(4,746)
	<u>(2,267)</u>	<u>(4,746)</u>
Cash Flows from Financing Activities:		
Cash received from member assessments	26,778	338,448
	<u>26,778</u>	<u>338,448</u>
Net Increase in Cash and Cash Equivalents	206,372	526,786
Beginning Cash and Cash Equivalents	1,853,430	1,326,644
Ending Cash and Cash Equivalents	<u>\$ 2,059,802</u>	<u>\$ 1,853,430</u>

Reconciliation of Net Loss to Net Cash Provided by Operating Activities

Net Income (Loss)	\$ 30,788	\$ (437,272)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,343	10,457
(Increase) / decrease in receivables	97,929	(29,980)
(Decrease) / increase in loss reserves	(222,096)	178,009
Increase in reserve for unearned premiums	343,258	369,733
(Decrease) / increase in other liabilities	(70,361)	102,137
	<u>\$ 181,861</u>	<u>\$ 193,084</u>

See accompanying notes.

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Notes to Financial Statements

September 30, 2004 and 2003

Note A - Nature of Operations and Summary of Significant Accounting Policies:

Principal Activity

The Indiana Basic Property Insurance Underwriting Association (FAIR Plan) is a voluntary association of insurance companies writing habitational and commercial property coverages in Indiana. The purpose of the FAIR Plan is to make available property insurance coverage for qualifying property located in Indiana. Applicants must show they have been denied coverage by three different insurance companies in the thirty day period preceding their submission of an application to the FAIR Plan. The FAIR Plan is administered by a governing committee representing various segments of property insurers.

Costs to provide the property insurance, including claims, operating expenses and losses, are funded by premiums paid by policyholders and assessments made against member insurance companies.

General

The FAIR Plan's financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Department of Insurance of the State of Indiana. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

Premium and Other Receivables

The FAIR Plan carries its premium receivable at invoiced amounts less an allowance for doubtful accounts. On a periodic basis, the FAIR Plan evaluates its premium receivable and establishes an allowance for doubtful accounts, based on history of past write-offs and collections and current credit conditions. Management has established an allowance for doubtful accounts of \$9,000 and \$0 as of September 30, 2004 and 2003, respectively.

The FAIR Plan's policy is not to accrue interest on past due premium receivables. Receivables amounted to \$47,264 and \$161,934 at September 30, 2004 and 2003, respectively.

Nonadmitted Assets

Statement of Statutory Accounting Principles requires that assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interest should not be recognized on the Statement of Admitted Assets, Liabilities and Members' Equity, and are, therefore, considered nonadmitted.

Furniture and equipment are carried at cost and includes expenditures for new additions and those, which substantially increase the useful lives of existing assets. Depreciation is computed at various rates by use of the straight-line method. Depreciable lives are as follows:

Furniture and equipment

3 to 10 years

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Notes to Financial Statements

September 30, 2004 and 2003

Note A - Nature of Operations and Summary of Significant Accounting Policies (Continued):

Nonadmitted Assets (Continued)

Expenditures for normal repairs and maintenance are charged to operations as incurred. The cost of furniture or equipment retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts in the year of disposal with the resulting gain or loss reflected in earnings or in the cost of the replacement asset.

Depreciation expense amounted to \$2,343 and \$10,457 for the years ended September 30, 2004 and 2003, respectively.

Income Taxes

The FAIR Plan has elected to report income tax information as a syndicate.

Cash Flows

For purposes of the Statements of Cash Flows, the FAIR Plan considers all highly liquid instruments that are purchased within three months or less of an instruments maturity date to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with other comprehensive basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B - Pension Plan:

The FAIR Plan participated in a defined contribution plan. Contributions amounted to \$7,806 and \$4,440 for the years ended September 30, 2004 and 2003, respectively.

Note C - Related Party Transactions:

The FAIR Plan reimburses the Indiana Insurance Guaranty Association (IIGA) for office expenses, rent and personnel salaries and benefits. The FAIR Plan and IIGA share office space and employees, including management. The FAIR Plan pays a management fee to IIGA for reimbursement of salary and benefits for hours worked on FAIR Plan by IIGA employees. Such management fees amounted to \$201,897 and \$186,813 for the years ended September 30, 2004 and 2003, respectively.

In addition, the Indiana Automobile Insurance Association (Auto Plan) reimburses the FAIR Plan for the Auto Plan's share of common expenses paid by the FAIR Plan. The outstanding balance due to the FAIR Plan was \$2,117 and \$2,422 at September 30, 2004 and 2003, respectively.

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Notes to Financial Statements

September 30, 2004 and 2003

Note D - Lease Commitments:

As part of an agreement with IIGA, the FAIR Plan has agreed in the sharing of office rent. The FAIR Plan's estimated share of future lease payments is as follows:

<u>Year Ending September 30,</u>	
2005	<u>\$ 27,147</u>

Note E - Concentration of Credit Risk:

The FAIR Plan's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The FAIR Plan places its cash and equivalents with high credit quality institutions. At times, such amounts may be in excess of the FDIC insured limit. The FAIR Plan routinely assesses the financial strength of its members and, as a consequence, believes that its accounts receivable credit risk exposure is limited.

Note F - Member Assessments:

The FAIR Plan closed loss year September 30, 2001 during the year ended September 30, 2004.

Note G - Liability for Unpaid Claims:

Activity in the liability for unpaid claims is summarized as follows at September 30:

	<u>2004</u>	<u>2003</u>
Balance Beginning of Year	\$ 533,941	\$ 341,660
Incurred Related to:		
Current year	921,409	1,376,788
Prior years	<u>614,107</u>	<u>282,928</u>
Total Incurred	1,535,516	1,659,716
Paid Related to:		
Current year	1,261,636	877,847
Prior years	<u>490,848</u>	<u>589,588</u>
Total Paid	<u>1,752,484</u>	<u>1,467,435</u>
Balance at September 30	<u>\$ 316,973</u>	<u>\$ 533,941</u>

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Independent Auditors' Report

Governing Committee INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

The data included in the following schedules, although not considered necessary for fair presentation of financial position, results of operations and changes in financial position in accordance with accounting principles permitted by the Insurance Department of the State of Indiana, are presented for supplementary analysis purposes.

The information included in the following schedules is based on information provided to the Association from its servicing companies. The information included therein for the year ended September 30, 2004, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Whipple & Company, PC

October 29, 2004

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Accident Period

Years Ended September 30, 2002 through 2004

	Fire	Extended Coverage	General Liability	Theft	Total
Habitational:					
Premiums written	\$ 4,920,256	\$ 1,496,984	\$ 136,903	\$ 94,530	\$ 6,648,673
Unearned premium - beginning	1,666,829	486,173	47,234	61,022	2,261,258
Unearned premium - ending	(2,324,235)	(687,578)	(67,227)	(77,379)	(3,156,419)
Premiums Earned	4,262,850	1,295,579	116,910	78,173	5,753,512
Losses paid	2,558,471	874,097	0	0	3,432,568
Reserve for unpaid losses September 30, 2004	190,709	117,984	0	0	308,693
Losses incurred	2,749,180	992,081	0	0	3,741,261
Loss adjustment expense	209,067	140,380	8,310	3,223	360,980
Other underwriting expenses:					
Commissions	481,626	146,317	13,166	8,865	649,974
Inspections and credit	204,956	62,079	5,563	3,606	276,204
Servicing fees	209,471	63,536	5,690	3,755	282,452
All other expenses	847,064	257,284	23,176	15,567	1,143,091
	1,743,117	529,216	47,595	31,793	2,351,721
Total underwriting expenses	4,701,364	1,661,677	55,905	35,016	6,453,962
Underwriting gain (loss)	(438,514)	(366,098)	61,005	43,157	(700,450)
Investment income	27,678	8,674	721	495	37,568
Income (loss) habitational	(410,836)	(357,424)	61,726	43,652	(662,882)
Commercial:					
Premiums written	621,529	84,409	0	0	705,938
Unearned premium - beginning	219,147	31,007	0	90	250,244
Unearned premium - ending	(281,513)	(38,548)	0	0	(320,061)
Premiums Earned	559,163	76,868	0	90	636,121
Losses paid	362,196	73,493	0	0	435,689
Reserve for unpaid losses September 30, 2004	8,280	0	0	0	8,280
Losses Incurred	370,476	73,493	0	0	443,969
Loss adjustment expense	23,582	11,152	0	0	34,734
Other Underwriting Expenses:					
Commissions	64,270	8,909	0	0	73,179
Inspections and credit	33,812	4,672	0	0	38,484
Servicing fees	21,226	2,942	0	0	24,168
All other expenses	110,923	15,389	0	0	126,312
	230,231	31,912	0	0	262,143
Total Underwriting Expenses	624,289	116,557	0	0	740,846
Underwriting gain (loss)	(65,126)	(39,689)	0	90	(104,725)
Investment income	3,057	761	0	1	3,819
Income (loss) commercial	(62,069)	(38,928)	0	91	(100,906)
Net Income (Loss)	\$ (472,905)	\$ (396,352)	\$ 61,726	\$ 43,743	\$ (763,788)

See auditors' report on supplementary information.

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Accident Period

Year Ended September 30, 2004

	Fire	Extended Coverage	General Liability	Theft	Total
Habitational:					
Premiums written	\$ 2,077,949	\$ 677,950	\$ 60,878	\$ 33,210	\$ 2,849,987
Unearned premium - beginning	800,656	222,465	24,351	44,848	1,092,320
Unearned premium - ending	(1,013,571)	(309,519)	(29,458)	(22,367)	(1,374,915)
Premiums Earned	1,865,034	590,896	55,771	55,691	2,567,392
Losses paid	357,362	355,779	0	0	713,141
Reserve for unpaid losses September 30, 2004	139,219	18,994	0	0	158,213
Losses incurred	496,581	374,773	0	0	871,354
Loss adjustment expense	79,415	55,773	2,333	1,835	139,356
Other underwriting expenses:					
Commissions	206,374	65,385	6,171	6,162	284,092
Inspections and credit	77,074	24,419	2,305	2,301	106,099
Servicing fees	74,851	23,715	2,238	2,235	103,039
All other expenses	379,413	120,209	11,346	11,329	522,297
	737,712	233,728	22,060	22,027	1,015,527
Total underwriting expenses	1,313,708	664,274	24,393	23,862	2,026,237
Underwriting gain (loss)	551,326	(73,378)	31,378	31,829	541,155
Investment income	11,172	3,540	334	334	15,380
Income (loss) habitational	562,498	(69,838)	31,712	32,163	556,535
Commercial:					
Premiums written	205,032	26,885	0	0	231,917
Unearned premium - beginning	104,908	15,471	0	0	120,379
Unearned premium - ending	(100,530)	(12,359)	0	0	(112,889)
Premiums Earned	209,410	29,997	0	0	239,407
Losses paid	133,109	0	0	0	133,109
Reserve for unpaid losses September 30, 2004	0	0	0	0	0
Losses Incurred	133,109	0	0	0	133,109
Loss adjustment expense	4,238	3,492	0	0	7,730
Other Underwriting Expenses:					
Commissions	23,172	3,319	0	0	26,491
Inspections and credit	8,654	1,240	0	0	9,894
Servicing fees	8,404	1,204	0	0	9,608
All other expenses	42,601	6,103	0	0	48,704
	82,831	11,866	0	0	94,697
Total Underwriting Expenses	220,178	15,358	0	0	235,536
Underwriting gain (loss)	(10,768)	14,639	0	0	3,871
Investment income	1,255	180	0	0	1,435
Income (loss) commercial	(9,513)	14,819	0	0	5,306
Net Income (Loss)	\$ 552,985	\$ (55,019)	\$ 31,712	\$ 32,163	\$ 561,841

See auditors' report on supplementary information.

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Accident Period Year Ended September 30, 2003

	Fire	Extended Coverage	General Liability	Theft	Total
Habitational:					
Premiums written	\$ 1,831,895	\$ 508,503	\$ 48,623	\$ 40,258	\$ 2,429,279
Unearned premium - beginning	510,008	155,594	13,418	10,164	689,184
Unearned premium - ending	(800,656)	(222,465)	(24,351)	(44,848)	(1,092,320)
Premiums Earned	1,541,247	441,632	37,690	5,574	2,026,143
Losses paid	1,408,137	208,354	0	0	1,616,491
Reserve for unpaid losses September 30, 2004	11,995	98,990	0	0	110,985
Losses incurred	1,420,132	307,344	0	0	1,727,476
Loss adjustment expense	59,908	17,166	1,465	217	78,756
Other underwriting expenses:					
Commissions	176,131	50,469	4,307	637	231,544
Inspections and credit	78,985	22,633	1,932	286	103,836
Servicing fees	74,674	21,397	1,826	270	98,167
All other expenses	319,823	91,643	7,821	1,157	420,444
	649,613	186,142	15,886	2,350	853,991
Total underwriting expenses	2,129,653	510,652	17,351	2,567	2,660,223
Underwriting gain (loss)	(588,406)	(69,020)	20,339	3,007	(634,080)
Investment income	8,900	2,550	218	32	11,700
Income (loss) habitational	(579,506)	(66,470)	20,557	3,039	(622,380)
Commercial:					
Premiums written	218,427	30,312	0	0	248,739
Unearned premium - beginning	76,075	10,718	0	0	86,793
Unearned premium - ending	(104,908)	(15,471)	0	0	(120,379)
Premiums Earned	189,594	25,559	0	0	215,153
Losses paid	138,390	9,993	0	0	148,383
Reserve for unpaid losses September 30, 2004	8,280	0	0	0	8,280
Losses Incurred	146,670	9,993	0	0	156,663
Loss adjustment expense	7,370	993	0	0	8,363
Other Underwriting Expenses:					
Commissions	21,667	2,921	0	0	24,588
Inspections and credit	9,716	1,310	0	0	11,026
Servicing fees	9,186	1,238	0	0	10,424
All other expenses	39,343	5,305	0	0	44,648
	79,912	10,774	0	0	90,686
Total Underwriting Expenses	233,952	21,760	0	0	255,712
Underwriting gain (loss)	(44,358)	3,799	0	0	(40,559)
Investment income	1,095	148	0	0	1,243
Income (loss) commercial	(43,263)	3,947	0	0	(39,316)
Net Income (Loss)	\$ (622,769)	\$ (62,523)	\$ 20,557	\$ 3,039	\$ (661,696)

See auditors' report on supplementary information.

INDIANA BASIC PROPERTY INSURANCE UNDERWRITING ASSOCIATION

Accident Period Year Ended September 30, 2002

	Fire	Extended Coverage	General Liability	Theft	Total
Habitational:					
Premiums written	\$ 1,010,412	\$ 310,531	\$ 27,402	\$ 21,062	\$ 1,369,407
Unearned premium - beginning	356,165	108,114	9,465	6,010	479,754
Unearned premium - ending	(510,008)	(155,594)	(13,418)	(10,164)	(689,184)
Premiums Earned	856,569	263,051	23,449	16,908	1,159,977
Losses paid	792,972	309,964	0	0	1,102,936
Reserve for unpaid losses September 30, 2004	39,495	0	0	0	39,495
Losses incurred	832,467	309,964	0	0	1,142,431
Loss adjustment expense	69,744	67,441	4,512	1,171	142,868
Other underwriting expenses:					
Commissions	99,121	30,463	2,688	2,066	134,338
Inspections and credit	48,897	15,027	1,326	1,019	66,269
Servicing fees	59,946	18,424	1,626	1,250	81,246
All other expenses	147,828	45,432	4,009	3,081	200,350
	355,792	109,346	9,649	7,416	482,203
Total underwriting expenses	1,258,003	486,751	14,161	8,587	1,767,502
Underwriting gain (loss)	(401,434)	(223,700)	9,288	8,321	(607,525)
Investment income	7,606	2,584	169	129	10,488
Income (loss) habitational	(393,828)	(221,116)	9,457	8,450	(597,037)
Commercial:					
Premiums written	198,070	27,212	0	0	225,282
Unearned premium - beginning	38,164	4,818	0	90	43,072
Unearned premium - ending	(76,075)	(10,718)	0	0	(86,793)
Premiums Earned	160,159	21,312	0	90	181,561
Losses paid	90,697	63,500	0	0	154,197
Reserve for unpaid losses September 30, 2004	0	0	0	0	0
Losses Incurred	90,697	63,500	0	0	154,197
Loss adjustment expense	11,974	6,667	0	0	18,641
Other Underwriting Expenses:					
Commissions	19,431	2,669	0	0	22,100
Inspections and credit	15,442	2,122	0	0	17,564
Servicing fees	3,636	500	0	0	4,136
All other expenses	28,979	3,981	0	0	32,960
	67,488	9,272	0	0	76,760
Total Underwriting Expenses	170,159	79,439	0	0	249,598
Underwriting gain (loss)	(10,000)	(58,127)	0	90	(68,037)
Investment income	707	433	0	1	1,141
Income (loss) commercial	(9,293)	(57,694)	0	91	(66,896)
Net Income (Loss)	\$ (403,121)	\$ (278,810)	\$ 9,457	\$ 8,541	\$ (663,933)

See auditors' report on supplementary information.